1961

50th Annual Report

1911-1961
50
YEARS

INTERNATIONAL
SHOE COMPANY

SHOES FOR MEN

Florsheim • Winthrop
Hanan • City Club
John C. Roberts • Conformal
Hy-Test • Randcraft
Rand • Wesboro • Kingsway
John McHale • Briarcliff
Diamond Brand • Star Brand
Outdoorsman • Skamps

SHOES FOR WOMEN

Florsheim • Vitality
Queen Quality • Accent
Velvet Step • Trim Tred
Grace Walker • Panorama
Hy-Test • Gems • Trios
Smart Set • Debonair
Everease • Conformal

SHOES FOR CHILDREN

Poll Parrot • Red Goose
Weather-Bird • Vitapoise
Official Boy Scout
Happy Hikers • Scamperoos
Savage • Yannigans
Hurlbut • Hi-Lo's
Research • Pussyfoot
Red School House • Fun Shus

ANNUAL MEETING OF STOCKHOLDERS

will be held at 10:00 A.M. on February 26, 1962 at the Company's General Offices, 1509 Washington Ave., St. Louis, Mo.

INTERNATIONAL
SHOE COMPANY
World's Largest Shoe Manufacturer

1961
ANNUAL REPORT

CONTENTS

HIGHLIGHTS of the YEAR 1961

Fiscal years ended November 30	1961	1960
Net Sales	$294,274,879	$296,470,457
Income before Federal and Canadian Taxes	9,369,265	18,855,163
Federal and Canadian Taxes on Income	4,081,277	10,101,060
*Net Income	5,191,178	8,867,157
Dividends Paid	6,116,215	6,112,660
Net Income per share	1.53	2.61
Dividends per share	1.80	1.80
Net Working Capital	118,053,644	119,868,907
Net Working Capital per share	34.75	35.28
Net Worth	109,814,363	110,765,953
Net Worth per share	32.32	32.60
Number of Stockholders	19,800	19,008
Number of Employees	33,500	34,000

*After adjustment for minority interests.

From the President . . .

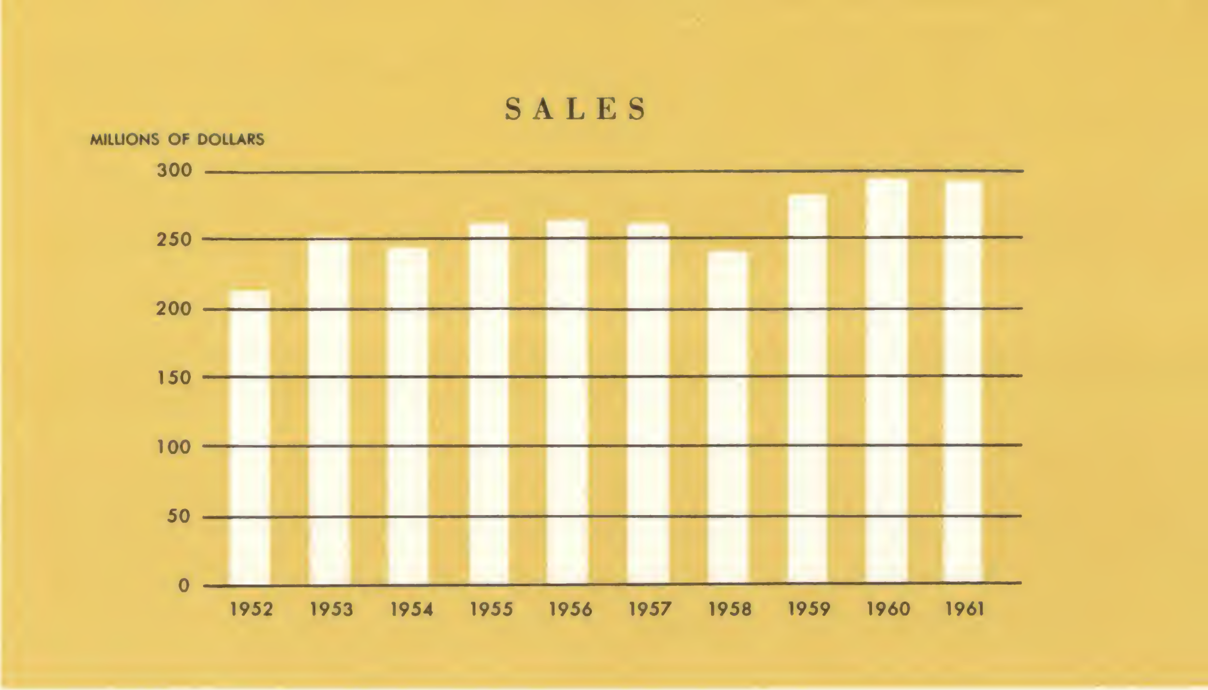
To Our Shareholders:

The good things about our Company in its 50th year did not show up in the earnings of this particular year. Net income was the lowest in many years. The reduction in the dividend was also, I am sure, a disappointment to you.

However, our sales were high. Our consolidated sales of $294,274,879 came within 1% of the highest sales on record made in 1960. In fact second half sales of $152.1 million were an all-time half-year high.

The year's high sales total was accomplished in a year when consumer buying was less than enthusiastic. Many economists were puzzled by the failure of the consumer to step up his purchases of all kinds, including shoes, in line with his improved income. Reflecting this, most industries concerned with production, distribution and services, including shoes, had to operate at levels below capacity.

Our sales were high. The question is: Why did our earnings fail to reflect the high level of sales? A number of adverse things converged in 1961. They fell into two categories. One—continuing costs which were not anticipated in connection with the organizational and operational



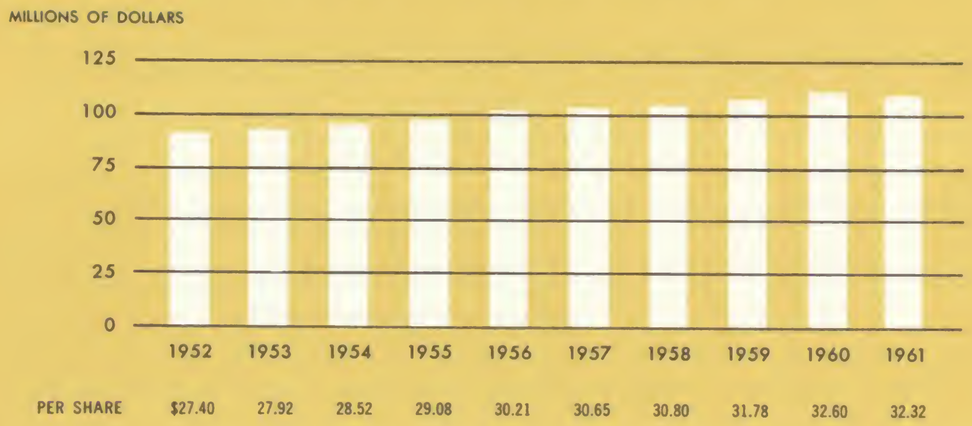
changes which have been under way for a number of years. Two—specific items peculiar to 1961.

To understand better the items falling in the number one category, I will review briefly. The organizational and operational changes under way in the St. Louis Division during the past several years were made necessary by major and fairly rapid changes in the marketing of goods. Many of the country and main street stores which served for such a long time were displaced by the small off-street shopping centers which sprang up in and about the smaller, as well as the larger cities. These were soon overshadowed by the large shopping centers, almost cities in themselves. Soon followed free-standing stores along highways, then discount stores. What was the newest thing yesterday was outdated today.

Consumer goods industries were kept busy adjusting themselves to these changes. Wholesalers, manufacturers and others in the complex network of activity which finally ends, in the case of shoes, at the fitting to the consumer's foot, had to adjust merchandising, manufacturing facilities and related matters to meet these changes. The larger the business organization, especially when integrated from finished goods back through raw materials, the greater were the problems.

I believe we have made great strides in changing our Company's organization, procedures and facilities to meet today's conditions. We are hopeful that most of the cost of these changes culminated in 1961.

SHAREHOLDERS' EQUITY



And now, as to specific things in 1961 which affected our earnings.

First, our own retail. 1961 was the year of reorganizing and regrouping a considerable amount of retail shoe business most of which was acquired in 1959. The retail managements which came in with these acquisitions were encouraged to expand their businesses, and this took place on a rather large scale in 1960. In 1961, under a newly-appointed vice president in general charge of all St. Louis retail, this business was reappraised and reorganized. Some stores were closed, some inventories liquidated, some new store fronts were built, and other improvements were made, all of which added to our costs. Meaningful alignments are taking shape and uniform policies are being implemented to assure good results in this important phase of our business.

Now, other items which affected our costs in 1961.

We reduced our inventory of shoes in wholesale stocks by more than one million pairs. This means a tighter, more efficient operation but, during the year, deprived us of this amount of production with attendant overhead absorption.

The prices of raw materials rose persistently throughout most of the year. Upper leather hides increased 30% or more and leather prices moved in line with these advances. Hide prices are increasingly influenced by world conditions, with foreign interests now taking over 25% of all of the hides produced in this country.

Source and Distribution of Funds . . . . .

Funds were acquired from sources as follows:

Net income for year	$ 5,191,178
Depreciation of plant and equipment	3,982,376
Decrease in customers' loans receivable	474,710
Decrease in sundry investments and deferred charges	367,917
Decrease in employees' notes receivable	184,020
Increase in minority interests	43,670
	$10,243,871

Our shoe prices were not advanced until July 17 as a result of the slower pace of consumer buying. The higher prices, however, did not become effective on shipments until late in the year as the major part of the fall business had been booked at earlier prices. This profit squeeze has been eliminated by the establishment of better margins entering 1962.

These were the factors which adversely affected 1961 earnings.

Now let's take a look at some of the good things in 1961.

Improvement was shown in the second half earnings of 86¢ a share which compared with 67¢ a share for the first six months.

Our closing financial statement shows cash at $16.7 million, higher than in any recent year. The current ratio of 5.1 to 1 was the highest in many years. Inventories were $74 million, down from $83 million at the end of the prior year. This, in a period of rising prices and costs, indicates the substantial reduction in units which was accomplished. Our long term debt was reduced $1.8 million. Working capital of $118 million remains at a high level.

Our Florsheim Division turned in another excellent year of sales and profits. Most notable in 1961 was the sharp upturn in sales of Florsheim women's shoes.

Our Canadian Savage organization acquired two more companies and now is a group of well-established companies producing men's, women's, and children's shoes. Word from Canada is to expect new peaks in sales and profits in 1962.

Our Puerto Rican plants have attained production of more than 10,000 pairs of shoes a day. The results prove the economic advantages of producing in this area.

These funds were distributed as follows:

Dividends paid on common stock	$ 6,116,215
Expenditures for plant, equipment and fixtures (net)	3,691,328
Decrease in long-term indebtedness	1,765,250
Increase in excess of investment over equity in subsidiaries	459,788
Acquisition of treasury stock and miscellaneous	26,553
	$12,059,134
Decrease in Working Capital	$ 1,815,263
	$10,243,871

Much has been accomplished in the streamlining of our headquarters organization. Factory overhead has been trimmed. All other possibilities for cost reduction are being constantly explored. Cost reduction requires continuing attention and it is getting it.

Now, a word about 1962. The reluctance of the consumer to spend his income appears to be fading. In October, retail sales improved and this improvement continued at an even better pace in November and December.

Since manufacturers' orders are primarily dependent on the shoe retailer's confidence, or lack of it, this upturn in consumer spending should result in increased confidence throughout the industry, and in increased sales for our Company. We expect our sales to pass the $300 million mark in 1962. Our earnings should definitely be up.

On the broader scene we are mindful of things going on in the national economy, particularly the effect of international developments on our own economy. The present balance-of-payments situation is one thing. The success of the growing common market group of European countries is another matter of great significance. These developments foreshadow changes in our economy. While the ultimate goal of a Western World with comparatively free exchanges of goods and services is a desirable objective, like many good things it may involve some discomfort, perhaps a bit of pain, on the part of our economy in adjusting to it. We are alert to developments which, within this framework, have specific meaning for our industry and, more particularly, our Company.

How we used our 1961 Sales Dollar

Materials, Supplies, and Expenses	$155,986,300	53.0%
Employees Pay and Benefits	123,202,426	41.9%
Tools wearing out—Depreciation	3,982,376	1.3%
Payments ordered by Government (Taxes excluding Social Security)	5,912,599	2.0%
Portion of Dividends provided by this year's operations	5,191,178	1.8%
	$294,274,879	100.0%

Through good times and bad, wars, booms and depressions, our Company in each of 50 successive years has operated profitably, and for each of 50 successive years has paid a dividend.

The change in the dividend rate was adopted with a keen awareness of our responsibility to you, our shareholders, and with the firm belief that this move is the soundest approach to a strong and successful future.

As we move into our 51st year, paying our 203rd consecutive dividend, your management looks forward to 1962 and beyond with confidence.

To our many customers, stockholders and employees, your management expresses its thanks for their continued loyalty and support.

FOR THE BOARD OF DIRECTORS

January 12, 1962

Henry H. Rand
PRESIDENT

In Memoriam
HENRY HALE RAND
1909 - 1962

Mr. Rand prepared the foregoing letter to shareholders with the meticulousness which was so characteristic of him. It was completed and delivered for printing.

Just when the printing began, came the sad news.

On Wednesday evening, January 17, after a day of usual activity he retired in apparent good health. Death came to him while he slept.

Mr. Rand devoted himself to carrying on the traditions and high ideals of the Company. He began his career with the International Shoe Company upon his graduation from Vanderbilt University in 1929. He was elected to the Board of Directors in 1945, became Vice President in 1948 and President in 1955.

His business activities included membership on the Boards of Directors of Mercantile Trust Company, Mississippi Valley Barge Lines and the Union Electric Company of Missouri.

His outstanding achievements were recognized not only by the Company and the shoe industry, but by the many civic, educational and philanthropic institutions in which he had a great interest.

He will be greatly missed as a strong and dedicated leader and as a fine gentleman.

PRODUCTION SUMMARY

Our Company's principal production is shoes. During 1961, we produced:

SHOES

for Men and Boys	Pairs—	15,007,645	Consisting principally of this type of production our sales amounted to
for Women and Girls	Pairs—	13,969,847	
for Children	Pairs—	16,068,840	
House Slippers	Pairs—	861,395	
	Total	45,907,727	$294,274,879

In addition, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1961 we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins	Feet—	56,540,801	This type of production had an aggregate value of
Cloth for Linings from Cotton	Yards—	9,700,782	$ 19,182,418

MATERIALS FOR SHOE BOTTOMS

Soles, of Leather	Pairs—	15,665,127	This type of production had an aggregate value of
Soles, of Rubber	Pairs—	15,769,352	
Counters, of Leather	Pairs—	5,252,957	
Heels, of Leather	Pairs—	1,987,458	
Heels, of Rubber	Pairs—	13,970,212	
Leather, for Soles from Cattle Hides	Pounds—	10,089,998	
Welting, Leather	Yards—	11,011,002	$ 18,779,928

OTHER MATERIALS AND SUPPLIES

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns, and others not itemized	This type of production had an aggregate value of $ 9,052,182

Total Value—Shoes and Materials and Supplies $341,289,407

PLANT FACILITIES

MANUFACTURING PLANTS

- 59 Shoe Factories
- 3 Sole Cutting Plants
- 2 Rubber Plants
- 1 Cotton Textile Mill
- 1 Welt Manufacturing Plant
- 1 Chemical Plant
- 1 Cement Plant
- 1 Box Plant
- 1 Wood Heel Plant
- 1 Last Remodeling Plant
- 1 Findings Plant
- 1 Display Shop
- 1 Leather Fibre Products Plant
- 1 Box Toe Plant

TANNERIES

- 4 Upper Leather Tanneries
- 1 Sole Leather Tannery

SUPPLY PLANTS

- 1 Upper Leather Supply Plant
- 1 Central Supply Plant
- 1 Central Machine Shop

WAREHOUSES

- 8 Finished Shoe Warehouses

ST. LOUIS DIVISION

Our St. Louis Division made great strides in 1961 toward the completion of the many organizational and operational changes which have been underway for several years.

This was the first full year of operation with the regional sales organization in its completed form. Retailers using Merchants Service increased in number. The St. Louis Division owned retail came under the central management of a vice president devoting his time exclusively to directing it toward more profitable operation. Two inefficient shoe factories were closed and one tannery was discontinued. Two new shoe factories were decided upon, plans drawn, and construction started.

The production of plants in Puerto Rico, almost entirely for the St. Louis Division, was increased steadily.

The central stock of shoes has reached a point of high efficiency in its operations. The procedures utilizing the computer which have speeded the entire process of planning, procurement, manufacturing and stocking the principal shoes, have performed in every way up to expectations. The inventory of finished shoes has been brought down another one million pairs following similar reductions in several prior years. The stock of shoes now is being turned more rapidly than ever before.

The costs of revamping and increasing the efficiency of these many affiliated activities were sufficiently great to adversely affect the results for the year; nevertheless, the improved operation should produce good results in 1962 and later years.

Under the regional plan of selling the entire country is divided into five regions, each under the direction of a regional manager. Each region is then divided into 3 or 4 sales districts, each under the direction of a district sales manager.

In the development of the first region in the Southeast in 1957, we quickly learned the problems of regional selling as well as the benefits. The problems consisted principally of reactions of some customers to the changes which the new plan involved. However, they were largely dissipated in the first and second years when our customers found their position strengthened by the closer supervision of our distribution by the regional managers, and by careful placement of our nationally advertised brands in stores which maintain representation of our products. After the first year or two, many significant retailers took new interest in our lines.

Similar experiences occurred in 1960 when the Western region was established and again in 1961 when the two largest regions, North Central and South Central were put into operation, completing the changeover.

GENERAL LINE DISTRIBUTION

ROBERTS, JOHNSON & RAND
PETERS
FRIEDMAN-SHELBY

SPECIALTY DIVISIONS

ACCENT SHOE COMPANY
GREAT NORTHERN SHOE CO.
HY-TEST SAFETY SHOES
PANORAMA SHOE CO.
QUEEN QUALITY SHOE CO.
VITALITY SHOE CO.
WINTHROP SHOE CO.

VOLUME DISTRIBUTION

CONTINENTAL SHOEMAKERS
HAMPSHIRE SHOE CO.
SENTINEL DIVISION

SALES REGIONS
GENERAL LINE DISTRIBUTION

While the emphasis on quality in our brand representation and the change in selling plans resulted in some temporary loss of sales volume, the strengthened distribution program is expected to provide substantial benefits.

The number of retailers using the Merchants Service plan increased during the year from 1,405 to 1,500. Dealers operating under this plan benefit in many ways from this close tie-in with their principal source of shoes. Comprehensive merchandising and accounting plans are provided them, but equally important is the counsel available through Merchants Service representatives.

The work done in 1961 toward improving the profitability of the St. Louis Division's own retail stores and leased departments was costly. However, we can now point with considerable satisfaction to fine outlets in almost all states of the Union. A few of the more outstanding names are—the Geuting Stores in Philadelphia, the Thompson, Boland & Lee Stores in the Atlanta area, Gudes and Barnetts in the Los Angeles area and Julius Grossman Fifth Avenue, New York stores.

Our volume account merchandising and sales efforts continued to develop an increasing amount of business with large retail distributors.

In the three years since International acquired plants in Puerto Rico, employment has doubled, production has tripled, and facilities now include four of the most modern plants to be found in the Commonwealth. These factories and people are successfully producing a low to middle price line that rounds out the total manufacturing picture for the St. Louis Division of the Company.

Today, with some 800 employees, operating under capable Puerto Rican management personnel, International Shoe Company is the island's fourth largest industrial employer producing in excess of 10,000 pairs daily.

The Puerto Rican operation contains many of the elements of "foreign operation." These include the problems of overseas shipment of raw materials and finished products, and the training and employment of Puerto Rican men and women, most of whom were without prior experience in industry. These things are significant in the light of world trade conditions now taking shape.

Research activities continued at a high level in 1961. Among the important results during the year was a new tough Whang-leather, soft and pliable yet resistant to water, acids, and alkalis, making it an ideal upper material for a variety of uses—hunting boots, shoes for industrial and farm wear and for doctors and nurses in hospitals.

Further studies of the Unimold shoes on which the sole and heel are formed in one operation led to the decision to make the vinyl "ribbon" that feeds the injection-molding machine.

Already on the horizon for 1962 are other significant products of our research laboratories, paced by the perfection of a "Magic Heel" for men's shoes that will never wear down.

Research, increased operational efficiency, both in manufacturing and retailing, all point to better results in 1962.

Harold M. Florsheim
President

THE FLORSHEIM DIVISION

The year 1961 found The Florsheim Division of the International Shoe Company maintaining the leadership it has held for the past sixty years or more in the men's quality shoe field.

With daily production averaging 11,000 to 12,000 pairs, the Florsheim output of men's shoes retailing at $19.95 and up, accounted for more than 70 per cent of all branded men's shoes manufactured in this price range and at the Florsheim quality level.

By far the most dramatic success is currently being experienced in the Women's Shoe Division of The Florsheim Shoe Company, with sales running ahead at the approximate rate of 35 per cent, and with volume distribution secure in better shoe stores and department stores in all major cities.

Factory production for the Women's Division is at an all-time peak averaging between 3,500 and 4,000 pairs a day. The Florsheim Shoe Company is proud to report that in their category of low to mid-heel daytime styles, Florsheim Shoes for women are now number one in their retail price field of $16.95 to $19.95.

On the basis of orders in production, present increases should be maintained or perhaps increased with the start of the spring retail selling season.

Distribution at the retail level has kept pace with the changing picture, with perimeter distribution through shopping centers and other suburban areas increasing wherever outstanding locations are available.

The Florsheim men's shoes are sold through some 4,000 or more independent dealers—family shoe stores, exclusive men's shoe stores, department stores, and leading men's clothing stores. In addition, The Florsheim Division operates a group of company-owned retail stores and leased departments in outstanding men's clothing stores.

The retail distribution of the Florsheim women's shoes is confined to top department stores, large-volume women's specialty or family shoe stores, and a group of company-owned stores operating under the name of Thayer-McNeil.

Through the manufacturing facilities of the Savage Shoe Company in Canada, Florsheim branded shoes are now being manufactured in that country. The reception of the line both at the dealer level and the consumer level is most satisfactory, which assures the future growth and potential of Florsheim Shoes for men manufactured and sold in Canada.

BOARD OF MANAGERS

William H. Armstrong	Martin F. Maher
Maurice R. Chambers	Robert O. Monnig
William Collingwood	Oswald M. Pick
Simeon F. Eagan	*Henry H. Rand
Harold M. Florsheim	Norfleet H. Rand
Thomas W. Florsheim	John K. Riedy
Gifford P. Foley	Laurence M. Savage
Richard A. Heider	Paul M. Smith
J. Lee Johnson	Joseph B. Stancliffe
Weldon P. Magee	John W. Wallace

**Deceased January 18, 1962*

OFFICERS

Harold M. Florsheim, *President*
S. F. Eagan, *Vice-President*
O. M. Pick, *Vice-President*
J. B. Stancliffe, *Vice-President*
W. H. Armstrong, *Vice-President*
W. Collingwood, *Vice-President*
T. W. Florsheim, *Vice-President*
G. P. Foley, *Vice-President*
W. P. Magee, *Vice-President*
J. K. Riedy, *Vice-President*
J. W. Wallace, *Treasurer and Secretary*
B. B. Clayburn, *Assistant Secretary*
M. F. Maher, *Director of Advertising*

SAVAGE SHOES LIMITED

Laurence M. Savage
President

Acquisition was the key to the expansion of every phase of Savage Shoes Limited in 1961.

Purchase in the latter part of the year of the Scroggins Shoe Company Limited of Galt, Ontario, with a daily average output of three thousand pairs of women's popular priced style shoes and of Denny-Stewart Limited of Montreal, Quebec, with a daily capacity of one thousand pairs of women's high styled footwear to retail from \$17.95 to \$25.95, raised Savage production to 21,500 pairs a day.

The story of Savage Shoes has been one of profitable growth since it became a part of International Shoe Company in 1954 with the result its share of the Canadian market is steadily increasing. According to the Dominion Bureau of Statistics, it now enjoys approximately 27 per cent of the children's production and 13½ per cent of the total output of leather footwear of all types.

The close liaison with International Shoe Company has given Savage Shoes extra resources, technology and styling to enable it to keep pace with Canadian demands. Continued growth and diversification were also insured through the acquisition in 1959 of Scott-McHale Limited of London, Ontario, now manufacturing the world-famous Florsheim shoes for men and of Medcalf Shoes Limited of St. Thomas, Ontario, now manufacturing the well-known Vitality brand for women.

Since 1954, Canada's population has increased from approximately fourteen million to slightly over eighteen million. During these years, Savage Shoes has grown from six factories to twelve including a wood heel plant; from nine hundred and eighty employees to well over two thousand; from a sales staff of twelve to forty-five and from a single sample room at Headquarters Office in Preston, Ontario, to modern display rooms in Montreal, Toronto, London and Vancouver.

Savage Shoes

DIRECTORS

Maurice R. Chambers	Robert O. Monnig
Harold M. Florsheim	*Henry H. Rand
C. Reg Kidner	Norfleet H. Rand
John S. Malcolm	Laurence M. Savage

**Deceased January 18, 1962*

OFFICERS

Laurence M. Savage
President

C. Reg Kidner
Vice-President and Secretary-Treasurer

John S. Malcolm
Vice-President

INTERNATIONAL SHOE COMPANY

TEN YEAR CONSOLIDATED FINANCIAL

	1961
Net Sales	$294,275
Income Before Taxes	9,369
Federal and Canadian Income Taxes	4,081
Net Income (1)	5,191
Dividends Paid	6,116
Percentage of Net Income to Sales	1.8%
Per Share—Net Income (2)	$ 1.53
Per Share—Dividends	1.80
Cash and Government Securities	$ 16,683
Receivables	55,048
Inventories	74,355
Prepaid Expenses	707
Total Current Assets	146,793
Current Liabilities	28,740
Working Capital	118,053
Physical Properties (Net)	40,247
Other Assets	9,772
Long-Term Debt	56,820
Minority Interests in Subsidiaries	1,438
Stockholders' Equity	$109,814
Shares of Common Stock Outstanding	3,397,222
Stockholders' Equity Per Share	$32.32

(1) After adjustment for minority interests.

(2) Based on shares outstanding.

(3) Includes nonrecurring items which increased net income $1,101,325 or 33 cents per share.

REVIEW . . . *Years Ended November 30*

1960	1959	1958	1957	1956	1955	1954	1953	1952
(DOLLARS IN THOUSANDS)								
$296,470	$283,261	$244,314	$266,073	$266,814	$262,414	$246,765	$251,028	$217,042
18,855	19,400	15,554	18,675	22,123	21,847	21,659	19,508	17,116
10,101	10,132	7,938	9,095	11,246	11,448	11,592	9,687	8,859
8,867	9,207	7,541	9,577	11,849 (3)	10,414	10,203	9,931	8,287
6,113	6,050	7,043	8,054	8,062	8,095	8,131	8,139	8,096
3.0%	3.3%	3.1%	3.6%	4.4%	4.0%	4.1%	4.0%	3.8%
(IN DOLLARS)								
$ 2.61	$ 2.71	$ 2.25	$ 2.86	$ 3.53 (3)	$ 3.10	$ 3.01	$ 2.93	$ 2.44
1.80	1.80	2.10	2.40	2.40	2.40	2.40	2.40	2.40
(DOLLARS IN THOUSANDS)								
$ 11,634	$ 9,952	$ 12,317	$ 8,495	$ 8,892	$ 10,639	$ 10,443	$ 11,527	$ 23,168
53,598	52,418	43,468	45,304	46,778	40,621	40,335	41,028	34,472
83,385	80,198	65,473	71,613	74,409	71,848	72,968	72,822	59,051
781	680	404	593	564	430	564	574	976
149,398	143,248	121,662	126,005	130,643	123,538	124,310	125,951	117,667
29,529	42,921	24,872	28,965	31,253	27,223	38,704	39,608	25,575
119,869	100,327	96,790	97,040	99,390	96,315	85,606	86,343	92,092
40,538	38,588	37,882	38,520	37,054	36,800	35,787	33,217	23,010
10,339	10,805	10,836	11,257	10,657	10,394	9,609	10,972	8,065
58,585	40,351	41,316	42,999	44,415	44,655	33,552	34,958	30,000
1,395	1,453	912	1,035	1,228	1,152	884	900	214
$110,766	$107,916	$103,280	$102,783	$101,458	$ 97,702	$ 96,566	$ 94,674	$ 92,953
3,398,022	3,395,222	3,353,718	3,353,718	3,358,703	3,359,503	3,386,203	3,390,803	3,392,753
$32.60	$31.78	$30.80	$30.65	$30.21	$29.08	$28.52	$27.92	$27.40

INTERNATIONAL SHOE COMPANY

CONSOLIDATED FINANCIAL POSITION

November 30,	1961	1960
Current assets:		
Cash	$ 16,673,141	$ 10,977,856
United States Government securities, at cost	10,000	656,371
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts	55,047,944	53,598,067
Inventories (note 2)	74,354,998	83,384,701
Prepaid insurance premiums, taxes, and sundry	707,400	781,026
Total current assets	146,793,483	149,398,021
Less—current liabilities:		
Notes payable to banks	1,724,500	720,000
Current maturities of long-term debt	1,755,250	1,755,250
Accounts payable and accrued expenses	21,159,607	19,114,335
Employees' balances and tax withholdings	1,386,035	1,339,615
Federal and Canadian taxes on income	2,714,447	6,599,914
Total current liabilities	28,739,839	29,529,114
Net working capital	118,053,644	119,868,907
Physical properties—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (note 3)	40,247,035	40,538,083
Customers' secured loans, deferred maturities	6,213,699	6,688,409
Excess of investment over equity in subsidiaries, net	1,764,368	1,304,580
Employees' notes receivable for stock, secured by 49,333 shares (54,851 shares in 1960) of parent company's common stock	933,230	1,117,250
Sundry investments and deferred charges	860,628	1,228,545
	168,072,604	170,745,774
Deduct:		
Long-term debt, less current maturities (note 4)	56,820,000	58,585,250
Minority interests in subsidiaries	1,438,241	1,394,571
	58,258,241	59,979,821
STOCKHOLDERS' EQUITY	$109,814,363	$110,765,953
Represented by:		
Common stock without nominal or par value: Authorized 4,000,000 shares; issued 3,400,000 shares	51,000,000	51,000,000
Capital in excess of stated amount	1,023,607	1,023,957
Retained earnings (note 5)	57,889,860	58,814,897
	109,913,467	110,838,854
Less common stock in treasury, 2,778 shares (1,978 shares in 1960), at cost	99,104	72,901
Stockholders' equity applicable to common stock outstanding, 3,397,222 shares (3,398,022 shares in 1960)	$109,814,363	$110,765,953

See accompanying notes to financial statements.

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME AND RETAINED EARNINGS

Years Ended November 30,	1961	1960
Sales and other income:		
Net sales	$294,274,879	$296,470,457
Income from rentals and services	392,623	429,122
Interest and other income	923,952	868,989
	295,591,454	297,768,568
Deductions:		
Cost of sales, selling, general and administrative expenses (note 7)	283,000,409	275,948,422
Interest and amortization of expense on long-term debt	2,694,005	1,525,288
Other interest and sundry charges	527,775	1,439,695
	286,222,189	278,913,405
Income before Federal and Canadian taxes on income	9,369,265	18,855,163
Federal and Canadian taxes on income, estimated	4,081,277	10,101,060
	5,287,988	8,754,103
Proportion of net profit (loss) of subsidiaries applicable to minority interests	96,810	(113,054)
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	5,191,178	8,867,157
Retained earnings at beginning of year	58,814,897	56,060,400
	64,006,075	64,927,557
Dividends on common stock $1.80 per share each year	6,116,215	6,112,660
RETAINED EARNINGS AT END OF YEAR	$ 57,889,860	$ 58,814,897

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERNATIONAL SHOE COMPANY:

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1961 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 4, 1962

INTERNATIONAL SHOE COMPANY

NOTES TO FINANCIAL STATEMENTS

1) Principles of consolidation:

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements in accord with the established policy of the company. Operating results from acquisition date of newly acquired subsidiaries are included in consolidated income. Insofar as practicable, all inter-company accounts, transactions, and unrealized profit in inventories have been eliminated in consolidation.

2) Inventories:

	1961	1960
Finished shoes	$45,201,758	$49,305,574
Shoes in process	2,773,224	2,414,293
Hides and leather	10,330,388	13,078,980
Miscellaneous materials on hand and in process	16,049,628	18,585,854
	$74,354,998	$83,384,701

Forty-four percent of the inventories at current values are priced at cost, last-in, first-out (LIFO). The remainder of the inventories, including all miscellaneous materials and supplies, are priced at the lower of cost, first-in, first-out, or replacement market.

3) Physical properties:

	1961	1960
Land	$ 3,973,400	$ 3,966,372
Buildings and structures	43,650,204	42,984,788
Machinery and equipment	44,932,036	43,320,626
Lasts, patterns, and dies	1	1
	92,555,641	90,271,787
Less accumulated depreciation	52,308,606	49,733,704
	$40,247,035	$40,538,083

Properties of Twelfth-Delmar Realty Company (net balance November 30, 1961, $2,465,092) are pledged as collateral on mortgage notes payable to banks.

4) Long-term debt, less current maturities:

	1961	1960
4⅝% promissory installment notes, due annually $1,875,000, 1970 through 1989 and balance in 1990	$50,000,000	$50,000,000
3⅛% promissory installment note, payable $1,500,000 annually, 1963 through 1965	4,500,000	6,000,000
Mortgage notes payable, an obligation of Twelfth-Delmar Realty Company, payable $10,000 monthly, and balance December 1, 1963	1,330,000	1,450,000
5½% sinking fund debentures, obligations of Savage Shoes Limited:		
Series A, annual sinking fund requirements of $52,500	262,500	311,250
Series B, annual sinking fund requirements $16,500 to 1966 and $17,000 thereafter	167,500	184,000
Installment bank loan, an obligation of Savage Shoes Limited, payable $80,000 annually 1962 through 1968. Interest at daily commercial rates	560,000	640,000
	$56,820,000	$58,585,250

5) Retained earnings restrictions:

Retained earnings of $43,810,400 at November 30, 1961 are restricted as to payment of cash dividends on common stock by the 4⅝% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $80,000,000.

6) Common stock subject to options:

At the beginning of the year, options to acquire 121,590 shares were outstanding. During the year, options to acquire 5,500 shares, which were due to expire April 21, 1964, were cancelled and an option to purchase 3,000 shares was granted at $32.50 per share. An option for 100 shares was exercised at $34.50 per share. At November 30, 1961, options were outstanding to acquire 5,240 shares at $39.50 (expire 1962), 110,750 shares at $34.50 (expire 1964) and 3,000 shares at $32.50 (expire 1966).

7) Certain charges to operations:

	1961	1960
Depreciation of physical properties	$3,982,376	$3,809,670
Maintenance and repairs	4,921,994	5,358,362
Taxes—other than income taxes	7,044,226	6,685,181
Rentals of real property	4,543,445	4,536,966
Rentals of shoe machinery	2,482,329	2,286,358
Rentals of leased departments	3,139,547	2,616,208

INTERNATIONAL SHOE COMPANY

DIRECTORS

William J. Banks	Clemence L. Hein	*Henry H. Rand
Edgar S. Bland	Andrew W. Johnson	Norfleet H. Rand
David R. Calhoun	J. Lee Johnson	Rezin H. Richards
Maurice R. Chambers	Lee C. McKinley	Richard O. Rumer
Kenton R. Cravens	Robert O. Monnig	Laurence M. Savage
Harold M. Florsheim	Oliver F. Peters	

OFFICERS

*Henry H. Rand	*President*
Andrew W. Johnson	*Vice-President*
Oliver F. Peters	*Vice-President*
Robert O. Monnig	*Vice-President and Treasurer*
J. Lee Johnson	*Vice-President*
Rezin H. Richards	*Vice-President*
Harold M. Florsheim	*Vice-President*
Lee C. McKinley	*Vice-President*
Maurice R. Chambers	*Vice-President*
Norfleet H. Rand	*Vice-President*
Laurence M. Savage	*Vice-President*
Joseph Fox	*Vice-President*
Richard O. Rumer	*General Counsel*
William J. Banks	*Comptroller and Assistant Secretary*
Warren P. Metz	*Secretary and Assistant Treasurer*
Leonard F. Vogt	*Assistant Comptroller*

GENERAL OFFICES

1509 Washington Ave., St. Louis 66, Mo.

TRANSFER AGENTS

Manufacturers Hanover Trust Company, New York, N. Y.
Mercantile Trust Company, St. Louis, Mo.

REGISTRARS

Morgan-Guaranty Trust Company, New York, N. Y.
St. Louis Union Trust Company, St. Louis, Mo.

**Deceased January 18, 1962*

LOCATIONS OF PRINCIPAL FACILITIES

SALES BRANCHES

ST. LOUIS, MISSOURI

Accent Shoe Co.
Conformal Shoe Co.
Continental Shoemakers
Friedman-Shelby Shoe Co.
Great Northern Shoe Co.
Hampshire Shoe Co.
Hy-Test Shoe Co.
Panorama Shoe Co.
Peters Shoe Co.
Queen Quality Shoe Co.
Roberts, Johnson & Rand Shoe Co.
Sentinel Shoe Co.
Vitality Shoe Co.
Winthrop Shoe Co.

CHICAGO, ILLINOIS

The Florsheim Shoe Co.

CANADA

Savage Shoes, Ltd.—Preston, Ontario
Scroggins Shoe Co., Ltd.—Galt, Ontario
Denny Stewart, Ltd.—Montreal, Quebec
Medcalf Shoe Co., Ltd.—St. Thomas, Ontario
McHale Shoe Co., Ltd.—London, Ontario

SHOE FACTORIES

MISSOURI

Belle
Bland
Cape Girardeau
Dexter
Eldon
El Dorado Springs
Hamilton
Hannibal
Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Louis
Salem
Sikeston
Sullivan

MISSOURI

Sweet Springs
West Plains
Windsor

ILLINOIS

Anna
Chicago
Evansville
Flora
Mt. Vernon
Olney
Quincy
Springfield

KENTUCKY

Hopkinsville
Paducah

ARKANSAS

Batesville
Conway

ARKANSAS

Russellville
Searcy

PUERTO RICO

Manati

AUSTRALIA

Melbourne

ONTARIO, CANADA

Fergus
Galt
Kitchener
London
Preston
St. Thomas
West Lorne

QUEBEC, CANADA

Montreal

OTHER MANUFACTURING AND SUPPLY PLANTS

Hannibal, Missouri
St. Clair, Missouri
St. James, Missouri
St. Louis, Missouri
Vandalia, Missouri
Malvern, Arkansas
Bryan, Texas
Chicago, Illinois
Wood River, Illinois

TANNERIES

St. Louis, Missouri
Wood River, Illinois
Bolivar, Tennessee
Marlinton, West Virginia
Manchester, New Hampshire

WAREHOUSES

Hannibal, Missouri
St. Charles, Missouri
St. Louis, Missouri
Topeka, Kansas
Chicago, Illinois
Philadelphia, Pennsylvania
Galt, Ontario, Canada

INTERNATIONAL SHOE COMPANY

Fifty-Year Review

1911-1961

50

YEARS

From President's Message to Shareholders . . .

. . . Through good times and bad, wars, booms and depressions, our Company in each of 50 successive years has operated profitably, and for each of 50 successive years has paid a dividend. As we move into our 51st year, paying our 203rd consecutive dividend, your management looks forward to 1962 and beyond with confidence . . .

INTERNATIONAL

FIFTY YEA

Fiscal Year	Net Sales	Income before Federal and Canadian Taxes (a)	Federal and Canadian Taxes on Income (b)	Net Income (a)	Dividends Declared on Preferred Stock	Net Income Available for Common Stock
	(DOLLARS IN THOUSANDS)					
1912	$ 20,991	$ 1,955	$ 19	$ 1,936	$ 578	$ 1,358
1913	26,005	1,835	19	1,816	654	1,162
1914	24,115	1,524	15	1,509	660	849
1915	24,439	1,823	18	1,805	660	1,145
1916	33,575	3,189	79	3,110	660	2,450
1917	45,037	5,354	1,270	4,084	697	3,387
1918	50,811	4,398	1,585	2,813	700	2,113
1919	61,248	6,917	2,250	4,667	700	3,967
1920	75,618	8,914	2,644	6,270	846	5,424
1921	73,839	5,025	859	4,166	1,128	3,038
1922	97,366	11,740	1,503	10,237	1,415	8,822
1923	109,923	11,704	1,405	10,299	1,422	8,877
1924	110,241	15,123	2,062	13,061	1,424	11,637
1925	114,266	14,594	1,873	12,721	1,424	11,297
1926	116,981	15,279	2,061	13,218	600	12,618
1927	124,306	20,478	2,780	17,698	600	17,098
1928	122,695	17,973	2,211	15,762	600	15,162
1929	132,110	19,208	2,177	17,031	600	16,431
1930	102,394	14,598	1,724	12,874	600	12,274
1931	86,802	11,088	1,343	9,745	600	9,145
1932	65,489	7,730	1,082	6,648	600	6,048
1933	70,343	10,764	1,673	9,091	426	8,665
1934	77,169	10,866	1,899	8,967		8,967
1935	83,073	10,032	1,490	8,542		8,542
1936	84,857	9,772	1,355	8,417		8,417
1937	88,279	7,395	1,128	6,267		6,267
1938	80,829	4,891	623	4,268		4,268
1939	89,325	8,062	1,474	6,588		6,588
1940	89,257	8,122	1,648	6,474		6,474
1941	116,530	9,691	2,484	7,207		7,207
1942	144,256	16,634	9,639	6,995		6,995
1943	143,014	18,700	11,954	6,746		6,746
1944	156,869	13,237	7,257	5,980		5,980
1945	149,088	10,750	5,178	5,572		5,572
1946	135,382	3,312	(2,143)	5,455		5,455
1947	213,325	22,617	8,601	14,016		14,016
1948	220,146	22,046	8,199	13,847		13,847
1949	190,353	12,457	4,711	7,746		7,746
1950	199,009	19,386	8,248	11,138		11,138
1951	225,070	20,170	11,459	8,837		8,837
1952	217,042	17,116	8,859	8,287		8,287
1953	251,028	19,508	9,687	9,931		9,931
1954	246,765	21,659	11,592	10,203		10,203
1955	262,414	21,847	11,448	10,414		10,414
1956	266,814	22,123	11,246	11,849		11,849
1957	266,073	18,675	9,095	9,577		9,577
1958	244,314	15,554	7,938	7,541		7,541
1959	283,261	19,400	10,132	9,207		9,207
1960	296,470	18,855	10,101	8,867		8,867
1961	294,275	9,369	4,081	5,191		5,191

NOTES: (a) Includes nonrecurring items which decreased income $1,000,000 or 33 cents per share in 1916; $550,000 or 17 cents per share in 1939; $450,000 or 14 cents per share in 1942; $222,447 or 7 cents per share in 1943; $1,000,000 or 30 cents per share in 1946; and increased income $1,101,325 or 33 cents per share in 1956. Net income adjusted for minority interests.

(b) Includes excess pro
applicable. Net of
refundable in 194
provisions of the I

SHOE COMPANY

R REVIEW

Net Income per Share of Common Stock (c)	Dividend Rate per Share of Common Stock (c)	Shares of Outstanding Preferred Stock	Shares of Outstanding Common Stock (c)	Common Stockholders' Equity (DOLLARS IN THOUSANDS)	Common Stockholders' Equity per Share (c)
$ .44	$	82,500	3,060,000	$ 14,108	$ 4.61
.38	.29	94,250	3,060,000	14,401	4.71
.28	.29	94,250	3,060,000	14,358	4.69
.37	.25	94,250	3,060,000	14,738	4.82
.80	.29	94,250	3,060,000	16,296	5.33
1.11	.29	100,000	3,060,000	18,842	6.16
.69	.33	100,000	3,060,000	19,935	6.51
1.30	.29	100,000	3,060,000	23,010	7.52
1.77	.33	122,500	3,060,000	27,594	9.02
.83	.42	177,643	3,645,116	34,784	9.54
2.40	.50	179,142	3,672,024	42,011	11.44
2.41	.69	178,000	3,680,000	48,461	13.17
3.16	1.00	178,000	3,680,000	56,418	15.33
3.07	1.25	100,000	3,680,000	60,176	16.35
3.43	1.50	100,000	3,680,000	67,274	18.28
4.54	1.75	100,000	3,760,000	80,684	21.46
4.03	2.00	100,000	3,760,000	88,326	23.49
4.37	2.50	100,000	3,760,000	95,357	25.36
3.36	3.00	100,000	3,650,299	90,761	24.86
2.61	3.00	100,000	3,510,000	82,716	23.57
1.82	2.75	100,000	3,329,966	72,871	21.88
2.60	2.00		3,335,371	74,518	22.34
2.69	2.00		3,337,071	76,858	23.03
2.55	2.25		3,338,500	77,955	23.35
2.51	2.25		3,340,300	78,935	23.63
1.87	2.00		3,340,300	78,524	23.51
1.27	1.75		3,340,300	76,947	23.04
1.97	1.75		3,343,300	77,764	23.26
1.93	1.75		3,342,500	78,367	23.45
2.15	2.00		3,342,500	78,889	23.60
2.08	1.80		3,340,600	79,821	23.89
2.01	1.80		3,340,600	80,545	24.11
1.78	1.80		3,340,600	80,495	24.10
1.66	1.80		3,340,600	80,051	23.96
1.63	1.80		3,340,600	79,487	23.79
4.12	2.25		3,400,000	88,213	25.94
4.07	3.00		3,400,000	91,833	27.01
2.28	3.00		3,400,000	89,797	26.41
3.28	2.55		3,399,200	92,056	27.08
2.61	2.40		3,391,100	92,556	27.29
2.44	2.40		3,392,753	92,953	27.40
2.93	2.40		3,390,803	94,674	27.92
3.01	2.40		3,386,203	96,566	28.52
3.10	2.40		3,359,503	97,702	29.08
3.53	2.40		3,358,703	101,458	30.21
2.86	2.40		3,353,718	102,783	30.65
2.25	2.10		3,353,718	103,280	30.80
2.71	1.80		3,395,222	107,916	31.78
2.61	1.80		3,398,022	110,766	32.60
1.53	1.80		3,397,222	109,814	32.32

it taxes in years where
mount of income tax
6 due to carry-back
ternal Revenue Code.

(c) Based on shares outstanding at close of fiscal year, adjusted for the exchange of each share of $100 par value Common Stock (Missouri Corporation) for six shares no par value Common Stock (Delaware Corporation) in 1921, and the stock split on the basis of four shares for one in 1927. Outstanding shares exclude Company's own Common Stock held in its Treasury.

INTERNATIONAL
SHOE COMPANY
World's Largest Shoe Manufacturer

Summary Description of the Business of the International Shoe Company, The Florsheim Shoe Company and Subsidiary Corporations

INTERNATIONAL SHOE COMPANY
(St. Louis Division)

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures, for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

More than 30,000 independent retailers distribute the greater part of its product at the retail level. A part goes through large and small chain organizations and through retail outlets operated by the Company.

THE FLORSHEIM SHOE COMPANY

The Florsheim Shoe Company, a division, manufactures and distributes Florsheim shoes for men and women. In addition to distribution through 5,000 dealers, Florsheim operates a number of shoe stores and leased departments throughout the United States.

SUBSIDIARY CORPORATIONS

This consolidated report includes the affairs and accounts of subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Three of these subsidiaries are of significant size:

SAVAGE SHOES LIMITED and its subsidiaries manufactures and distributes men's, women's and children's shoes throughout Canada.

PUERTO RICAN INVESTMENT COMPANY through which are produced juvenile, growing girls' and men's shoes, principally for distribution by the St. Louis Division.

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Globe-Democrat Building in St. Louis, Missouri, with International Shoe Company and the St. Louis Globe-Democrat Publishing Company as the principal tenants.

World's largest manufacturer of men's, women's and children's shoes